

Message Text

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FM AMEMBASSY TEHRAN

TO AMEMBASSY NEW DELHI

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C O N F I D E N T I A L TEHRAN 7704

E.O. 11652: GDS

TAGS: BTIO, EIND, EMIN, ETRD, EALR, IR, IN

SUBJ: INDO-IRANIAN RELATIONS: KUDREMU KH IRON ORE PROJECT,

TRADE AGREEMENT, AND SHIPPING COMPANY

REF: SWEETWOOD/LUNDY LETTER OF AUGUST 30.

SUMMARY: EMBASSY BELIEVES IRAN IS MORE CONCERNED OVER GETTING ON WITH KUDREMU KH IRON ORE DEVELOPMENT AS RAPIDLY AS POSSIBLE THAN WITH CHOICE OF FOREIGN COLLABORATOR. IRAN WOULD WELCOME AMERICAN PARTICIPATION, BUT DECISION IS UP TO INDIANS. RECENT VISIT BY INDIAN COMMERCE MINISTER RESULTED IN FIVE-YEAR TRADE AGREEMENT. AGREEMENT APPARENTLY DID NOT COVER OIL EXPORTS OR IRON ORE. MORE DETAILS OF JOINT SHIPPING COMPANY EXPECTED TO BE WORKED OUT SHORTLY. END SUMMARY.

1. EMBASSY APPRECIATES RECEIVING DETAILED DESCRIPTION OF CURRENT STATE OF KUDREMU KH EXPLOITATION PLANS AS SEEN FROM NEW DELHI. CHECK WITH NATIONAL IRANIAN STEEL INDUSTRIES COMPANY ASSISTANT MANAGING DIRECTOR ARDEBILI CONFIRMS THAT POINTS CONTAINED IN LETTER ARE ESSENTIALLY CORRECT. THIS WEEK INDIAN TECHNICAL TEAM VISITED IRAN TO DISUCSS PROJECT SCHEDULE.

CHANCES APPEAR GOOD THAT SOME KIND OF AGREEMENT OR PROTOCOL

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CAN BE PUT TOGETHER IN TIME FOR SHAH'S EARLY OCTOBER VISIT TO

INDIA.

2. EMBASSY DOUBTS, HOWEVER, THAT USG SHOULD TRY TO MOVE IRANIANS TOWARDS ACCEPTANCE OF AMERICAN COMPANY COLLABORATION WITH INDIANS FOR KUDREMUH EXPLOITATION. WHILE WE DETECT NO EVIDENCE OF SPECIAL PREFERENCE FOR U.S. PARTICIPATION, WE ARE CERTAIN IRANIANS WOULD WELCOME AMERICAN COMPANY INVOLVEMENT AS BEST MEANS OF GETTING JOB DONE. U.S. FIRM CONSORTIUM APPROACH PROPOSED BY EMBASSY NEW DELHI WOULD BE ENTIRELY ACCEPTABLE. ON THE OTHER HAND, IRANIANS SEEM TO REGARD FOREIGN COLLABORATION FOR DEVELOPMENT OF KUDREMUH AS PURELY INDIAN DECISION. THEIR ATTITUDE IS AMERICAN COMPANIES MUST CONVINCE INDIANS AND NOT IRANIANS THAT THEY ARE BY FAR BEST CHOICE FOR KUDREMUH PROJECT. BALL IS IN INDIA'S COURT TO COME UP WITH VIABLE PROPOSALS INCLUDING FOREIGN COLLABORATION AGREEMENT. IRANIANS SIMPLY WANT A READILY AVAILABLE SOURCE OF USABLE IRON ORE. IF INDIA SHOULD BE UNABLE TO DELIVER THE GOODS, IRAN WILL GO ELSEWHERE.

3. ARDEBILI NOTED THAT EVEN THOUGH IRAN HAS DECIDED TO IMPORT ENTIRE 7.5 MILLION METRIC TON PROJECTED ANNUAL OUTPUT OF KUDREMUH, AND INCLUDING EXPECTED PRODUCTION FROM GOL-E-GOHAR IRON ORE DEPOSIT NORTH OF BANDAR ABBAS, COUNTRY STILL EXPECTS TO BE SHORT OF IRON ORE AND WILL HAVE TO FIND OTHER SOURCES FOR IMPORTS. INDIAN ORE IS TO BE PELLETIZED BY NISIC AT PLANT TO BE CONSTRUCTED IN AHWAZ AREA. SOME 5 MILLION METRIC TONS WILL BE USED BY GAS REDUCTION SPONGE IRON PLANTS TO BE BUILT IN AHWAZ. REMAINDER WILL GO EITHER TO GAS REDUCTION PLANT TO BE BUILT BY CONSORTIUM OF GERMAN COMPANIES AT BUSHIRE OR TO ITALIAN-BUILT PLANT AT BANDAR ABBAS. ARDEBILI ALSO SAID PROJECTED \$300 MILLION IRANIAN INVESTMENT IN EXPLOITATION OF KUDREMUH IRON ORE BASED ON EARLIER SURVEY DONE BY MARCONA CORPORATION. CONSIDERING INFLATION, COST PROBABLY WILL BE CONSIDERABLY HIGHER. INDIAN COMMERCIAL ATTACHE RANGANATHAN SAYS IRANIAN INVESTMENT IN KUDREMUH COULD BE AS HIGH AS \$500-\$600 MILLION.

4. LATE AUGUST VISIT TO IRAN BY INDIAN MINISTER OF COMMERCE CHATTOPADHAYA APPARENTLY DID NOT COVER KUDREMUH DEVELOPMENT. FIVE-YEAR TRADE AGREEMENT SIGNED PROVIDING FOR INDIAN EXPORT TO CONFIDENTIAL

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IRAN OF SUGAR (500,000 TONS AT \$720 DURING CURRENT YEAR WITH LATER PRICE TO BE NEGOTIATED), 1.1. MILLION TONS OF CEMENT, STEEL, POWER TRANSMISSION EQUIPMENT, INDUSTRIAL MACHINERY AND MACHINE TOOLS, RAILWAY WAGONS AND TRACKS, AND SURGICAL INSTRUMENTS. IRAN WOULD EXPORT TO INDIA MACHINE TOOLS AND INDUSTRIAL MACHINERY, GAS CYLINDERS, BALL BEARINGS, TRANSFORMERS, POWER CABLES, ALUMINUM INGOTS, CHEMICAL AND PETRO-CHEMICAL PRODUCTS, INCREASED AMOUNTS OF DRIED FRUITS AND MEDICINAL HERBS.

ACCORDING TO RANGANATHAN, HOWEVER, QUANTITIES AND PRODUCTS LISTED IN TRADE AGREEMENT ONLY REPRESENT GOALS WITH SPECIFIC TRADE DEALS TO BE WORKED OUT LATER.

5. RANGANATHAN SAID PRESS REPORTS THAT AGREEMENT SIGNED TO SET UP JOINT INDO/IRANIAN SHIPPING COMPANY WERE PREMATURE. HOWEVER, INDIAN DELEGATION IS EXPECTED NEXT WEEK AND "MEMORANDUM OF ASSOCIATION" FOR ESTABLISHING SHIPPING LINE IS EXPECTED TO RESULT. HE SAID COMPANY WILL BE SET UP ON 50-50 BASIS, BUT INDIANS EXPECT IRANIAN GOVERNMENT TO PROVIDE THE NEW SHIPPING LINE CREDITS FOR PURCHASE OF SHIPS. REGISTRATION OF COMPANY WILL BE IN IRAN. PRESUMABLY JOINT SHIPPING COMPANY EVENTUALLY WOULD CARRY IRON ORE SHIPMENTS FROM MANGALORE TO PERSIAN GULF, BUT IN SHORT TERM IT WILL BE CONCERNED WITH TRANSPORTING EXPECTED INCREASED INDO/IRANIAN TRADE IN OTHER COMMODITIES.

6. IN RESPONSE TO EMBOFF'S QUESTION, RANGANATHAN DENIED ANY NEW COMMITMENTS MADE DURING CHATTOPADHAYA VISIT FOR INDIAN IMPORT OF OIL FROM IRAN AT CONCESSIONAL RATE. HE DISCLAIMED KNOWING PRECISE DETAILS OF OIL DEAL, BUT SAID IT IS HIS UNDERSTANDING THAT INDIA NOW IS GETTING ABOUT ONE-THIRD OF ITS OIL IMPORTS FROM IRAN ON DEFERRED PAYMENT BASIS. (TOTAL IMPORTS FROM IRAN ARE ABOUT 70 PERCENT WORLDWIDE INDIAN OIL IMPORTS.) ABOUT \$3.75 PER BARREL IS PAID IN CASH FOR OIL NEEDS OF MADRAS REFINERY AND FOR "SOME OTHER" OIL IMPORTED FROM IRAN. REMAINDER OF PURCHASE PRICE PAYMENT IS DEFERRED FOR FIVE YEARS.
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